



STEVE WESTLY California State Controller

October 14, 2005

K-12 Local Education Agencies, Joint Powers Entities, and
Certified Public Accountants Performing Audits of
K-12 Local Education Agencies and Joint Powers Entities

Subject: Annual Audits for Fiscal Year 2004-05

This advisory provides additional information to assist independent auditors in performing the fiscal year 2004-05 audits of local education agencies (LEAs) and joint powers entities (JPEs).

Procedural

1. Requests for "Audit Report Filing Extensions" are due to the State Controller's Office (SCO) and the California Department of Education (CDE) no later than December 1, 2005. All requests must be approved and submitted by the respective county office of education. Extensions will be granted only under extraordinary circumstances.
2. Unless an extension is granted, fiscal year 2004-05 audit reports must be filed with the SCO, CDE, and county superintendent of schools by December 15, 2005.
3. Independent auditors may submit reports to the SCO on a CD, providing the report is in a PDF file format and includes the independent auditor's electronic signature.

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Audit Guide

The audit guide is published by the Education Audit Appeals Panel (EAAP) pursuant to rulemaking procedures. The title of the audit guide for fiscal year 2004-05 is *Standards and Procedures for Audits of California K-12 Local Education Agencies 2004-05*. The audit guide is prescribed in the *California Code of Regulations*, Title 5, Education, Section 19810, and following. It is available through the EAAP's Web site at www.eaap.ca.gov.

Compliance

During the SCO's annual audit report certification process, a significant amount of time is spent corresponding with independent auditors regarding audit report deficiencies. To expedite the process, the following items should be addressed in each of the audit reports for fiscal year 2004-05.

- The Statement of Changes in Fiduciary Net Assets is required for Pension Trust Funds.
- The Reconciliation of Annual Financial and Budget Report with Audited Financial Statements is required for all LEAs and JPEs. All reports must include either the schedule or a note to the supplementary information stating that there were no reconciling items.
- The Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards has been replaced by the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards.
- The following six compliance requirements were added to the audit guide.
 - School Construction Funds: School District Bonds, 3 procedures
State School Facilities Funds, 1 procedure
 - Alternative Pension Plans, 2 procedures
 - Proposition 20 Lottery Funds (Cardenas Textbook Act of 2000), 2 procedures
 - State Lottery Funds (California State Lottery Act of 1984), 2 procedures
 - California School Age Families Education (Cal-SAFE) Program, 3 procedures
 - School Accountability Report Card, 3 procedures

In addition, the number of procedures increased for Attendance Reporting from 6 to 8, and Instructional Materials general requirements from 9 to 12.

The Auditor's Report on State Compliance must include the 6 new compliance requirements in addition to the 12 previous compliance requirements. The report should include the number of procedures required by the audit guide, and state whether or not the procedures were performed. An explanation should be included if certain procedures were not performed or if alternate procedures were performed.

- The Auditor's Report on State Compliance must refer to *Standards and Procedures for Audits of California K-12 Local Education Agencies 2004-05*, published by the Education Audit Appeals Panel.
- The Schedule of Instructional Time is required for all school districts, including basic aid school districts. Penalties should be calculated for all findings relating to Instructional Time for all school districts, including basic aid school districts.

- The School Accountability Report Card (SARC) to be reviewed pursuant to *California Code of Regulations* Title 5, Education, Section 19837, should be the SARC published during fiscal year 2004-05, and based on the CDE template titled “School Accountability Report Card Reported for School Year 2003-04 Published During 2004-05” (available through the CDE’s Web site at <http://www.cde.ca.gov/ta/ac/sa/documents/tempword04.doc>).

If the SARC is not available, the auditor should include an audit finding. If the SARC is available but certain procedures could not be performed or alternative procedures are performed, report this as prescribed in *California Code of Regulations*, Title 5, Education, Section 19814(e), Report on State Compliance.

- Each audit finding should be presented in the following level of detail:
 - State or Federal Program Information
 - Finding Code (i.e., 10000 Attendance, 20000 Inventory of Equipment)
 - Criteria or specific requirement
 - Condition
 - Questioned costs
 - Context
 - Effect
 - Cause
 - Recommendation
 - LEA’s Response

For state compliance findings, the financial impact must be quantified. The audit guide includes specific information that must be included in each finding. This information must be presented in order for the SCO to accept the finding. For example, for attendance findings, the audit guide requires that the audit report shall include a statement of the number of units of average daily attendance that were inappropriately reported for apportionment and an estimate of their dollar value. If there is no financial impact, the finding must describe the reasons for the auditor’s conclusion.

For single audits with federal compliance findings, the SCO will not accept reports in which federal findings are not presented in accordance with the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Subpart E–Auditors, Section .510.

- The Education Audit Appeals Panel will revise Class Size Reduction (CSR), Title 5 of the *California Code of Regulations*, Education, Section 19826.1(d), through an emergency regulation adoption. The emergency regulation will clarify that this audit provision is applicable to school districts or charter schools that maintained only one school that served K-3 and that participated in CSR under the alternative provisions of *Education Code* Section 52122(h).

To be eligible to participate under *Education Code* Section 52122(h): (1) the district or charter school governing board must have made the required declaration, (2) its only K-3 school must not have had more than two classes per participating grade level, (3) the average class size of all classes participating in CSR at the school must not have exceeded 20.4, and (4) no participating class may have had more than 22.4 pupils.

A district or charter school that had only one school serving K-3 but was not otherwise eligible under *Education Code* Section 52122(h) would be tested instead under Section 19826(b) for Option 1 Classes and under Section 19826(c) for Option 2 Classes.

Management Letter

Reportable conditions, such as any state compliance findings, should not be reported in the management letter. Generally Accepted Government Auditing Standards (GAGAS), paragraphs 5.12 through 5.20, provide guidance on when deficiencies in internal control should be included in the auditor's report and when they should be included in the management letter.

If issued, a copy of the management letter is required to be submitted along with the LEA's annual report.

This audit guide advisory is available on the Internet, at the SCO homepage, www.sco.ca.gov.

Should you have any questions or need additional information, please contact Casandra Moore-Hudnall, Chief, Financial Audits Bureau, Division of Audits, at (916) 322-4846.

Sincerely,

Original Signed By:

STEVE WESTLY
California State Controller